

Proprietary Schools and Student Financial Aid

by Wellford W. Wilms

Although they provide most of the nation's postsecondary vocational training,¹ the 6,000 proprietary vocational schools² have only recently been recognized as a legitimate part of the postsecondary education structure. Proprietary schools have grown to represent two-thirds of all postsecondary vocational schools, and they enroll nearly three-quarters of all postsecondary vocational students,³ most of whom are from the lower ranges of socioeconomic status and thus depend heavily on federal student aid. However, as competition for student aid increases, policymakers and educators are hindered in their search for reliable information on this significant educational sector because of a dearth of research on these schools and their operations. This paper synthesizes most current information and research findings to help guide the development of future student aid policies.

A Backdrop of Distrust and Scandal

Though proprietary schools existed in the 17th century, these schools first gained public attention in the latter half of the 19th century as the country struggled to train a workforce to meet its rapidly-increasing manpower needs (Katz, 1973; Juhlin, 1976). Usually known as "corporation" or "trade" schools, they were generally held in low esteem by educators, social reformers and labor leaders. Labor officials feared these schools would be used by their corporate owners to break strikes and foment anti-union sentiments among students. Many educators and social reformers were concerned that private training, carried on outside of public control, would be geared only to individual employers' needs, dooming students to "blind-alley" jobs (Lapp and Mote, 1915).

For more than a quarter of a century, between 1917 and 1945, proprietary schools operated in relative obscurity, eclipsed by growing federal investments in public high school vocational programs. However, following World War II, a series of scandals in which unscrupulous school operators bilked GI's out of their educational entitlements thrust proprietary vocational schools into the public eye (Berry and Dunbar, 1970). Fueled by newspaper accounts that highlighted some schools' deceptive recruiting and sales practices, a number of states enacted license laws designed to curb them. However, states' attempts at regulation, which most agree were minimal, proved largely ineffective in thwarting school operators bent on misrepresentation or fraud (Federal Trade Commission, 1976). Thus, the publicity that accompanied each new disclosure ensured a continuation of the industry's tarnished image.

The schools' shady image persisted more tenaciously perhaps than it would have under different circumstances for two added reasons. First, proprietary schools were, until recently, perceived by many prospective students and parents as having

¹"Vocational" training is usually defined as training for an occupation requiring less than a bachelor's degree.

²Private schools incorporated as profit-seeking institutions.

³Includes both residential and correspondence schools.

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only a limited utility. The postwar years of economic expansion had created a large pool of jobs and low rates of unemployment. The conventional wisdom pointed to the rapidly-expanding collegiate system as the route to employment rather than lower-level vocational training, particularly in proprietary schools. Second, the widely-held assumption that profitmaking and education were inherently incompatible likely helped to darken the image of proprietary schools. Until the end of the 1960s' most schools operated virtually without regulation. Less than half belonged to one of the four trade association accrediting groups, which most agree had only a minimal effect on schools' operations. However, a few proprietary schools with junior college status in mind sought regional accreditation. The debate that surrounded a school's bid for regional accreditation in the most notable case, Marjorie Webster, exposed the stubborn assumption that a school's interest in profits would overshadow its concerns for its students and the quality of their education (Marjorie Webster, 1969). More recently the Sullivan Junior College of Business forced the Southern Association of Colleges and Schools, under threat of losing its federal recognition, to accept it as a member. One member of a federal committee which investigated the school's complaint commented that the conflict was "... indicative of the education establishment's strong resistance to the accreditation of proprietary schools" (Chronicle of Higher Education, 1979).

During the past decade, however, forces that had ostracized proprietaries from traditional education began to shift. The influence of an oversupply of college graduates seeking jobs, combined with a slower-growing economy, reduced student's expectations about the economic returns of attending college, and refocused policymakers' attention on shorter-term vocational education. At the same time, the burgeoning federal investment in student aid attracted the attention of the proprietary school industry, which successfully pressed for recognition as a legitimate part of postsecondary education. With the passage of the Higher Education Act of 1972, proprietary schools were admitted to the postsecondary education community and became eligible to receive increased federal student aid.

Finally, the Federal Trade Commission's (FTC) attempt to regulate the industry, as the consumer movement swept the country, had a profound impact on reforming the proprietary school industry. By the early 1970's public exposures of proprietary schools' deceptive sales and recruiting practices had become commonplace, underscoring the impotence of state regulatory law and pointing to the need for federal intervention. Between 1970 and 1976 the Commission held hearings compiling testimony from over 900 individuals who provided substantial evidence of deception and fraud used by some schools to recruit students. The FTC staff concluded that a lack of reliable student information which would allow prospective students to verify school claims, and the availability of large amounts of federal student aid, were partly to blame. The Commission staff reasoned that federal student aid seemed like "free money" to many students, encouraging them to be less cautious in making enrollment decisions. Further, the staff concluded that the infusion of student aid provided schools with incentives to enroll students independent of their ability to benefit from the course, and distorted the schools' natural incentives to maintain fair cancellation and refund policies. Based on the record, the Commission in 1978 promulgated a Trade Regulation Rule that would require schools to provide students with information about dropout and graduation rates, have a pro-rata refund policy, and provide students with a "cooling-off" period during which they could cancel a school contract without penalty. The Commission staff warned that without such regulation high government-insured loan default rates would occur (undated Federal Trade Commission memorandum).

Industry representatives successfully challenged the rule, which would have taken effect on January 1, 1980, before a U. S. Court of Appeals. In late 1979 the Court

ruled in favor of the industry and ordered the rule returned to the Commission for modification. In January, 1981, the Commission staff recommended a revised rule to the Commission. More recently the Commission chairman issued an agenda indicating the proposed rule would be considered in January 1983. To date, however, there has been no consideration. Many observers feel that the schools' stiff opposition to the rule in the current anti-regulatory climate, may have reduced the Federal Trade Commission's enthusiasm and ability to press for regulation.

Industry Reforms

While the Federal Trade Commission may not have achieved its goal of industry-wide regulation, there is evidence that the public attention focused by the Commission on dishonest school practices, and the threat of regulation, stimulated reform movements from within. Industry representatives, concerned with negative public opinion and the likelihood of regulation, moved to improve industry practices. The four accrediting groups (National Home Study Council, National Association of Trade and Technical Schools, Association of Independent Colleges and Schools, and the Cosmetology Accrediting Commission) and some of the larger firms began to adopt some of the key aspects of the regulation sought by the Federal Trade Commission. For example, the industry line of the 60's, "every school has a refund policy - no refunds," gave way to mandated minimum refunds as a condition for accreditation. Control Data Corporation, which in 1979 had 22 technical institutes and had been in litigation with the FTC, adopted an "absolute" pro-rata refund policy, meaning that students paid only for time they actually attended classes. In the late 1960's, accrediting commissions began to adopt written enrollment agreements and specific catalogue content for schools seeking accreditation. Memberships in most accrediting associations flourished. Except for a 35% decline in accredited correspondence schools, between 1969 and 1979 the National Association of Trade and Technical Schools recorded a doubling of its member institutions, and business schools accredited by the Association of Independent Colleges and Schools increased more than 1½ times.

Proprietary Schools as Businesses

Because proprietary schools depend entirely on student tuition for revenue, they must be highly sensitive to shifts in student and employment demand. As federal student aid has comprised a larger share of students' tuitions, these schools are also increasingly affected by federal student assistance policies (Schaeffer, 1979). However, because proprietary schools are businesses first and schools second, their ways of cost-cutting, increasing market shares and revenues, and minimizing risks are often misunderstood by educators and policymakers, or interpreted as marks of low-quality education. Hyde's economic analysis of Illinois proprietary schools gives an important perspective for policymakers and educators on the schools' incentives and behavior (Hyde, 1976). Underscoring the observation that most schools have a fragile hold on existence, Hyde found evidence that student demand for training was positively related both to prevailing wages and unemployment rates. Hyde described these schools, less than half of which had capital assets in excess of \$30,000, as occupying a sensitive brokering position between the student market and a changing labor market. These small schools (nationally, 60% of private vocational schools enroll less than 100 students according to 1978 data from the National Center for Education Statistics) are highly leveraged, meaning that a dollar in assets often generates two or three dollars in revenue. Thus, Hyde points out, a few students can make the difference between a profit and a loss. He describes how in one typical school, a 1% decline in revenue produced a 60% decline in profits, pointing to the central importance of cost control.

Schools' rates of return on physical assets averaged 14% in Hyde's study. However, risks in the business are considerable and profits are volatile. During one year the most profitable schools had rates of return of over 100%, while 25% suffered "losses."

Policymakers should also be aware of the competitive relationship between public two-year schools and proprietaries. While the FTC record leaves the impression that little competition exists between the two sectors, Hyde's study documents some detrimental effects of competition from publicly-subsidized community colleges on proprietary schools. Indicating their sensitive and dependent relationship to external events, Hyde showed how during a period of rapid community college expansion, proprietary school failures increased 50% and proprietary enrollments collapsed, shifting to the publicly-subsidized community college. In the analysis of a single proprietary school, Hyde recorded a 77% decline in enrollments when a community college opened nearby.

The Schools and Enrollments

As of 1978, 75% of proprietary vocational schools operated as independent entities, 16% were chains and 7% were branches of other non-educational organizations (NCES, 1979). No reliable data exist on the percent and size of schools owned by larger corporations, or total revenue produced by the industry. According to one account, the top-ten companies operating vocational schools in the United States in 1979 operated more than 60 schools and produced revenues of \$225 million (SRI, 1979).

As of 1980, the proprietary industry was the largest school provider of postsecondary vocational training. The 5,993 residential and 82 correspondence schools made up nearly two-thirds (64%) of all postsecondary schools offering vocational education. Approximately 67% of these schools are either accredited by one of the four accrediting associations, or approved for veterans. Public schools represented 22% of postsecondary vocational education providers, and private non-profit schools the remaining 14%. Student enrollments in 1980 followed a similar pattern. Proprietary residential⁴ and correspondence schools together accounted for 72% of all postsecondary enrollments — residential schools with 54% and correspondence schools with 18% of total postsecondary vocational enrollments. Public schools, regional occupational centers, technical schools, community colleges and some four-year colleges with vocational programs enrolled 25% of all postsecondary vocational students. Private, non-profit schools, most of which were hospital programs, enrolled the remaining 3% (NCES, 1981).

Table 1 shows that within proprietary schools, the largest single group was comprised of cosmetology and barber schools. A calculation not shown in the table shows that while 37% of all proprietaries were cosmetology and barber schools, these schools enrolled only 11% of all students, with an average school size of about 62 students. At the other extreme, the 82 correspondence schools represented only 2% of total proprietary schools, but their students accounted for 28% of all proprietary school enrollments. Half of the correspondence school students were studying through four correspondence schools, each with an average size of 33,000 students (NCES, 1979).

Business and secretarial schools comprise the second largest group of schools with an average size of 314 students, followed by flight and trade schools. Arts, allied health schools and 221 schools that could not be easily categorized made up the rest.

⁴"Residential" does not imply students live in the school, but merely distinguished this type of school from home-study, correspondence schools.

The third and fifth columns of Table 1 reveal a significant trend. As the third column shows, only trade and business schools registered any positive growth in numbers of new schools between 1974 and 1978. Cosmetology and barber schools declined in number by 9.9%, and flight schools shrank by more than 28%. While these figures alone suggest a decline in the industry, the fifth column of Table 1 clarifies the pattern. Except for flight schools, which show a loss in both numbers of schools and students, enrollments in business schools increased 37.4% between 1974 and 1978, trade schools' enrollments increased 22.8% and cosmetology and barber schools 16.5%. Apparently, the growth in enrollments in these years (which was not experienced by public schools which registered a .4% decline in students) stemmed more from the expansion of existing schools than the creation of new ones. This interpretation is reasonable in light of federal requirements, developed in the early 1970's, that eligible schools must be accredited and have been giving instruction for at least two years to qualify for the most attractive federal aid programs.

Table 1
Distribution of Proprietary Schools and Enrollments, and
Changes in Schools and Enrollments by Type of
Program (For Selected Years)¹

Type of Program	Number of ² Schools-1980 (Universe)	Percent Change ³ 1974-78	Enrollments 1980 (Universe)	Percent Change ³ 1974-78
Business	1,348	.3	423,100	37.4
Cosmetology/Barber	2,125	-9.9	132,400	16.5
Flight	926	-28.3	62,600	-16.1
Trade	739	3.5	116,100	22.8
Arts	233	—	32,400	—
Allied Health	220	—	42,600	—
Other	221	—	29,700	—
Correspondence ⁴	82	—	321,600	—
Totals	5,894		1,160,500	

¹Three-hundred twenty-nine schools with enrollments of 89,000 students were deleted from Table 1 because of changes in NCES definitions that made tabulations across these years hard to interpret. Empty cells indicate data were not available.

²A smaller number, 4,017 or 67 percent of all residential proprietary schools, is accredited or approved to receive federal financial aid. The major categories of these schools include: business schools, 731; cosmetology and barber schools, 1,710; flight schools, 712; trade schools, 398; arts schools, 136; allied health, 161 and other schools, 22.

³Figures include a small number of private, "non-profit" schools and students, which have only a minimal effect on data presented.

⁴Number of schools as of 1978. Data for 1980 not yet available.

Source: National Center for Education Statistics, "Enrollments and Programs in Noncollegiate Postsecondary Schools 1978," Washington D. C., 1979. Data for 1980, estimates from Evelyn R. Kay, National Center for Education Statistics, July, 1982.

Student Characteristics

Proprietary vocational students appear to be remarkably similar to their counterparts in two-year public schools. They generally come from the lower ends of the range of socio-economic status and academic ability (Wilms, 1975). Students' sex varies widely within their occupational program, and largely reflects the sexual composition of the occupations at large.

Program Characteristics

Residential proprietary school programs are on the average about half as long as comparable programs in the public sector (Wilms, 1975; NCES, 1979). Motivated to use their resources efficiently, proprietary school programs demand more class hours each day, making them more intense than public programs. Consequently, proprietary school students work fewer hours outside of class than their public counterparts. Lacking much general education found in public programs, proprietaries pack concentrated skill training into relatively few hours. Wilms reported evidence that suggested proprietary schools were keenly sensitive to the costs of instruction and minimized them by paying their teachers, on the average, 65% of the salaries earned by their counterparts in the public sector. They also deployed their teaching staffs with costs clearly in mind, by using their low-cost teachers more intensively than their higher-cost teachers. In all cases, proprietary school instructors carried a substantially heavier teaching load than vocational instructors in public schools. Further, Wilms found that proprietary schools hire, retain and promote their teachers based on their demonstrated ability to teach. Instructors in proprietary schools do not get tenure, and school management evaluates them frequently (Wilms, 1975).

Program Costs

Preliminary 1980 data from the National Center for Education Statistics indicate a wide variation in proprietary school costs (NCES, 1981). Charges, which include tuition, fees, books, and equipment, run from \$170 for a 54-hour course in real estate, to more than \$3,500 for a 2,700 hour course in electronics. To some extent, course costs vary with course hours. Correspondence courses tend to be less expensive, but program length and number of lessons have less bearing on costs than special equipment. For example, a correspondence course in forestry, with 23 lessons, takes an average nine months to complete and is priced at \$228. At the other extreme, a civil technology course that requires substantial equipment, with 37 lessons, takes an average of eight months to complete and costs \$2,986 (NCES, 1979).

Beneath this surface, as the National Center for Education Statistics notes, proprietary costs by themselves may be misleading, particularly when compared with costs in public schools (which in 1978 averaged 20% of private³ school costs). As mentioned earlier, proprietary school programs are more intense than public programs, with students spending more time in class each day. However, they are considerably shorter than public programs, often lasting only half as long. Consequently, though proprietary students may pay a higher tuition charge than public students, they usually complete their shorter programs more quickly and are available for employment sooner, thus reducing their foregone income. Wilms (1975) found that job placement and wage rates for public and proprietary graduates were similar, and calculated average training costs to the student, including tuition charges and foregone income. He found that in cases where proprietary schools kept their courses to a minimum length, average educational costs were less for those students than for students in public schools. Researchers at the SRI International (1979) modified Wilms' calculations, adding postgraduate income earned by proprietary students (while public students were still in school), and calculated net comparative education costs. For those studying computer programming, proprietary students' net costs were 51% of public students'; auto mechanics students', 30%; electronic technician students', 60%; and secretarial students' 27%. Medical and dental assisting students had fully recovered their costs before public

³National Center for Education Statistics data include a small proportion of private, non-profit schools, which cannot be disaggregated.

students had completed corresponding programs.

Completions, Job Placement and Earnings

Allegations of high dropout rates for both correspondence and residential proprietary schools have been reported in the popular press and before congressional committees for years. The Federal Trade Commission record cites dropout rates showing 60% of proprietary students had withdrawn prior to completing one-quarter of the course. Given the nature of correspondence programs that require rigorous self-discipline and the vulnerability of low-income students to schools' hard-sell techniques, high dropout rates seem plausible. But it appears that residential proprietary students persist as well as, if not better than students in public vocational schools. For example, the National Center for Education Statistics reports that in 1978, 46% of public vocational students successfully completed their courses, compared with 63% of private⁶ school vocational students (NCES, 1979). These findings are in agreement with Wilms' findings in a longitudinal study of a sample of public and proprietary school students that proprietary students were about 1.5 times more likely to complete their programs than public students (Wilms, 1982). While it is impossible to accurately determine the reasons why proprietary school students complete their programs more frequently, there are a number of plausible explanations. First, proprietary school programs are shorter and directed more toward specific employment than the longer and more general public programs. Second, since proprietary school students paid a substantial amount of tuition for their training, they may have been more motivated to complete it.

Completion rates for correspondence students are slightly more than half of those for residential students — 33.9% (NCES, 1979). However, as mentioned earlier, taking into consideration the self-discipline necessary to complete a correspondence course, a 33.9% completion rate is not surprising, and compares closely with completion rates in university-based correspondence programs (Wilms, 1976).

In Wilms' 1975 and 1982 studies he found that graduates of residential proprietary schools have about the same experiences in the labor market, as their public school counterparts, although they were in school on the average only about half as long. Both studies found that proprietary schools can cut their programs to at least half the length of public programs with no loss in placement or earnings for their graduates. Little reliable data are available on correspondence students' job placement and earnings.

Federal Student Assistance and Proprietary Schools

With the exception of Veterans' Administration programs, the chief financial assistance programs used by proprietary school students are those authorized by Title IV of the Higher Education Act of 1965. They are the Pell Grant (formerly known as the Basic Educational Opportunity Grant, or BEOG), the Supplemental Educational Opportunity Grant (SEOG), the National Direct Student Loan (ND-SL), and the Guaranteed Student Loan (GSL). The College Work-Study (CWS) program and the State Student Incentive Grant are also available to proprietary students, but because less than 2% of the recipients attend proprietary schools, these two programs have been deleted from further discussion. The current GI Bill consists of three programs: Chapter 31, Vocational Rehabilitation; Chapter 34, Veterans' Educational Assistance; and Chapter 35, Survivors and Dependents' Educational Assistance. Because Chapter 34 accounts for 88% of the Act's total enrollments and 86% of its costs, this discussion omits Chapters 31 and 35.

⁶National Center for Education Statistics data include a small proportion of private, non-profit schools, which cannot be disaggregated.

With the exception of the GSL program, the programs authorized by the Higher Education Act carry identical institutional requirements. With a few minor exceptions, institutional eligibility requirements for proprietary schools are the same as those for non-proprietary postsecondary vocational institutions. A school is eligible to participate when it admits students with a high school diploma or equivalent, or students beyond compulsory school age (without a diploma) who can benefit from training. A school must be legally authorized by the host state to provide a postsecondary program which must lead to a degree or certificate and prepare students for gainful employment in a recognized occupation in not less than six months, or 600 clock hours. Finally, the school must be accredited by a national accrediting association recognized by the U. S. Department of Education and have given instruction for a least two years. The eligibility guidelines for Guaranteed Student Loans are more liberal, allowing schools to enroll students with only elementary school education if they can benefit from the training. Programs can last a minimum of 300 clock hours and schools, if not accredited, can be approved by a state agency. Some proprietary school representatives noted that *minimum* course length requirements encourage schools to lengthen, rather than shorten, their programs, thereby inflating educational costs.

For a proprietary school to be eligible for the GI Bill, it need only be approved by a state agency as to the quality of its staff and adequacy of its facilities/record-keeping, and have an acceptable refund policy. The 93rd Congress amended the approval requirements so that all vocational schools receiving aid must demonstrate that at least 50% of their students find jobs for which they were trained (PL93-508).

Overall, both U. S. Department of Education and Veterans Administration eligibility requirements appear to treat proprietary schools remarkably similarly to other schools.

Recipients

A recent study of U. S. Department of Education student aid programs described how institutions "package" their aid (Applied Management Services, 1980c). While proprietary and two-year public schools packaged aid in similar ways, proprietary schools placed a far greater emphasis on grants (which were targeted toward low-income students), and less emphasis on returnable aid (loans) and work. Further, the study noted that proprietary students have substantially higher costs than two-year public students, and after all aid is taken into account, they have the highest remaining unmet need. Table 2 shows the rates of participation of students from all postsecondary schools in each aid program except the Guaranteed Student Loan program and the GI Bill for which no data were available.

Table 2 indicates proprietary school students' proportionately heavy use of non-returnable aid (grants) over returnable aid (loans) and work. A number of reasons seem plausible in explaining this pattern. First, proprietary schools' incentives lead them to enroll as many qualified students as possible. To most students a grant is a far more attractive inducement to pay a relatively high tuition than a loan. Second, because of the proprietary school practice of scheduling classes more intensely than public schools, in order to shorten program length, students are less available for outside work. Also, because few proprietary schools participate in the College Work-Study program, most proprietary students' work is arranged individually and not recorded as part of an aid "package" by the financial aid office. Finally, the study explains that the less intensive use of BEOG's in two-year public schools probably stems partly from the grant's \$200 minimum, the lower costs of public schools, and the BEOG half-cost limitation (Applied Management Science, 1980a).

Table 2
Percent of all Postsecondary Undergraduate Students
Receiving Selected Forms of Financial Assistance by
Institution: Academic Year 1978-79

	BEOG	SEOG	Aid Program NDSL	CWS	Stote
Proprietary	53	14	20	2	10
Two-Year Private	28	5	7	16	12
Two-Year Public	26	5	23	22	27
Four-Year Private	27	13	4	8	7
Four-Year Public	29	9	13	10	16
ALL SCHOOLS	29	9	12	11	15

Source: Study of Program Management and procedures in the Campus Based And Basic Grant Programs (G-129) Final Report, Applied Management Sciences, May, 1980, Table 5.4

Table 3 shows the distribution of selected aid programs for proprietary students over a number of years. Guaranteed Student Loans are not shown because no figures are available. Similarly, only the number of recipients is available from the Veterans' Administration. In 1973 - 1974, 14,000 proprietary students, about 8% of all BEOG recipients, claimed \$3.5 million in BEOG funds, or 7% of the total program funds. In that same year, public two-year school students received 24% of program funds, and private two-year school students, 3%. In 1973 - 1974, the average BEOG grant for a proprietary student was \$242. By 1979 - 1980, as Table 3 shows, proprietary students' share of NDSL funds increased from 2 - 8%, but the average award fell from \$1,332 to \$674. Some of the shift away from NDSL represents an increased reliance (not shown) on the GSL. But it is also plausible the shift partly represents a substitution of grants for loans as the grant programs grew and the Middle Income Student Assistance Act increased student eligibility.

Table 3
Distribution of Dollars, Recipients and Average Awards by Selected Financial
Assistance Programs for Proprietary Vocational Schools:
Academic Years 1973-1974 and 1979-1980

	1973-1974				1979-1980			
	Cost (millions)	As % of total program	Number of Recipients	Average Award	Cost (millions)	As % of total program	Number of Recipients	Average Award
BEOG	\$3.5	7	14,000	\$242	\$252	10	239,000	\$1,054
SEOG	—	—	—	—	25	8	62,000	559
NDSL	6.9	2	5,200	1,332	51	8	76,000	674
Veterans (Ch. 34)	—	—	810,000	—	—	—	190,000	—

Source: U. S. Department of Education, Office of Student Financial Assistance, "OSFA Program Book," Washington, D.C., July, 1981. Veterans Administration, Office of Reports and Statistics, "Veterans Benefits Under Current Educational Programs Fiscal Year 1981," Washington, D.C., February, 1982.

According to an official at the National Home Study Council, which accredits correspondence programs, member schools are moving away from participating in the GI Bill program. Only 12 schools now participate, though they account for substantial numbers of students, and funding authorized for the Veterans' Administration contains no funds for correspondence programs in fiscal year 1982.

Compliance and Default in Proprietary Schools

Data on compliance with federal aid regulations and default rates by type of program for proprietary schools are extremely limited. A recent study revealed, however, that on the basis of data drawn from a small sample, a high proportion of proprietary schools appear to comply with NDSL financial counseling requirements (Applied Management Sciences, 1980b). Further, the study found proprietary schools reported the lowest incidence of grant overawards, and the second highest overpayment recovery rate. The study also found that proprietary schools act sooner on delinquent loans than other types of schools, with most of them quickly turning delinquent accounts over to collection agencies. Finally, the study found that while proprietary school students had a relatively high default rate (19.1%), it was only 2% higher than four-year public schools. On the other hand, two-year public school students defaulted nearly 1½ times more frequently (27.9%) than proprietary students.

Summary and Research Needs

Proprietary vocational schools appear to exist in a fragile environment which is necessarily sensitive to shifts in markets and federal policies. Their incentives have in the past led to dishonest practices, but in the current environment appear to achieve certain efficiencies. Training in most schools is shorter and more intense than similar training in public schools, and thereby reduces student costs despite higher initial tuition charges. Proprietary students also appear to complete their programs more frequently than public students. Once in the labor market, public and proprietary students' job placement and earning patterns tend to be similar.

Proprietary students rely most heavily on grants and use loans and work less than other students. They have the largest unmet financial need of all students. Schools appear to comply with federal aid requirements, and though tentative data show their student default rates are higher than those in four-year colleges, they are substantially lower than those in two-year public schools.

Research that allows for investigations beneath the surface of these data should be encouraged. For example, policymakers and both proprietary and public college educators should know the characteristics of schools and students with high loan default rates. A reasonable hypothesis would be that schools whose students have high default rates are those with low job placement rates and high rates of student dissatisfaction. On the other hand, high default rates may mask socially productive programs that tap low-income student markets and successfully train and place some students who would have otherwise perhaps been unemployed, but fail with others who later default. Without data on student aid expenditures, and school and student characteristics, however, such a hypothesis can only be speculation.

Further, research that allows comparisons between the relative effectiveness of aid spent on proprietary or two-year public vocational education could help policymakers target aid on the most potentially productive institutions and students.

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